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REPARATIONS OF THE SOVIET ZONE OF GERMANY

Comment: The following information was obtained from a book-
let entitled Die Reparationsleistungen der sowjetischen Besatzungs-
zone (Reparations of the Soviet Zone) by Dr Franz Rupp. The book-
let, published in 1951 by the Federal Ministry of All-German Af-
fairs in Bonn, is part of a series of informative reports called
Bonner Berichte aus Mittel-und Ostdeutschland (Bonn Reports from
Central Germany [Soviet Zone] and East Germany [German territory
east of the Oder-Neisse line - now occupied by Poland]).

The following abbreviations and terms are used in the attached
report:

DERUTRA - German-Soviet Transportation Corporation

DERUNAPHT - German-Soviet Petroleum Products Corporation

DN - Deutsche Notenbank (German Bank of Issue)

Emission and

Transfer Bank - Emissions-und Girobank

Guaranty and

Credit Bank - Garantie-und Kreditbank

SAG - Soviet Corporation

SED - German Socialist Unity Party

SMA - Soviet Military Administration.]

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PREFACE

Federal Minister of All-German Affairs

For more than five years the population of the Soviet Zone has been paying tremendous reparations to the USSR. The withdrawal of these assets, amounting to billions, from the substance of the economy and from current production, without public accounting and without any opportunity for examining the books, is not only an economic problem but also a political problem of the first magnitude. This situation is one of the reasons for the economic and political weakness as well as for the low standard of living of the Soviet Zone population. Existence of this situation has also speeded up the break between the East and the West during the discussions of the major powers on the fate of Germany in the conferences of the Council of Foreign Ministers between 1945 and 1947 and has prevented the restoration of German unity. From the very beginning deliveries of reparations have been levied in the twilight of vague and misleading data and have been subject to the arbitrary and hairsplitting interpretation of the international agreements by the USSR. Since neither the signatory powers of Potsdam nor the German public opinion have been able to control this form of exploitation of the Soviet Zone, the importance of reparations in the total picture of the entire German problem cannot be over-emphasized.

Therefore, it is urgently necessary to try to present the extent of these reparations and the forms in which they have been levied. The conclusion, reached here by careful methods and cautious procedure, is of special importance if it is examined not only from the economic and intra-German standpoint but also in the broader perspective of the discussions of the past years conducted between the United States, Great Britain, and the USSR regarding the justification of Soviet demands.

The Yalta Conference (3 - 11 February 1945) unanimously formulated the reparations claims of the three victor nations: Germany should be obliged to pay as much as possible and "in equal form" for damages which it had inflicted on the Allies during the war. The powers discussed the problem of fixing the total amount and the methods for eventual payments but they never reached a clear and final decision on this matter. The months following the Yalta Conference disclosed profound differences of opinion which were finally overcome through a compromise formula expressed in the Principles decided upon at Potsdam. Although the Potsdam formula did not establish the total amount of the reparations, it set a limit to reparations which could be demanded from Germany by establishing the guiding principles which, as a result of the experiences gained after World War I, were jointly adopted for the general solution of the German postwar problem from the standpoint of "European security".

Since in the opinion of the Allies, the military disarmament of Germany without industrial demobilization was ineffective after World War I, and since the reparations problem, solved as an international finance and debt problem, proved /at that time/ to be the main cause of the world economic crisis without being able to prevent German rearmament, this time the demands for industrial demobilization and for reparations were to be considered as one problem; reparations were to be paid only from the real values resulting from industrial dismantlings and supplemented only by German assets confiscated in foreign countries.

Accordingly, the Potsdam decisions provided for the reduction of German economy to the status of a peace-time economy which would satisfy the domestic needs of the German population and assure "an average European standard

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of living"; the products needed for the maintenance of this standard of living which were not available were to be imported and paid for with German export goods. An import-export plan was to be established for the entire German economic sphere by all participating powers with the purpose of keeping Germany economically prosperous and independent of aid from foreign countries.

The reparations settlement of Potsdam was subject to these binding guiding principles and to the general recognition of the integrity of the German economic sphere although, for practical purposes, the following division of interests between the Soviet Union and the Western Powers was agreed upon:

1. The reparations claims of the USSR were to be satisfied through assets to be taken from the zone occupied by the USSR /Soviet Zone/ and from German foreign assets in Bulgaria, Finland, Rumania and the Soviet Zone of Austria.
2. The reparations claims of the United States, the United Kingdom and the other countries were to be satisfied from the Western Zones of Germany and from German foreign assets in the remaining countries of the world.
3. In addition to the reparations received by the USSR from its zone of occupation, the USSR was to receive from the Western Zones of Germany 25 percent of certain more definitely specified industrial capital goods which were subject to dismantling, 10 percent of them without charge.
4. The dismantling of the industrial installations was to be completed within 2 years.

Beyond the dismantling of Germany's industrial war potential, no provision was made for reparations deliveries from the current production of Germany's remaining peace-time economy for a period of twenty years, as demanded by the USSR at Yalta. Unlimited deliveries of goods as reparations would make the stabilization of a balanced peace-time economy impossible and would endanger the average European standard of living promised to the German population.

The USSR adhered neither to the spirit nor to the letter of the Potsdam Agreement. By unilateral action the USSR expanded the powers granted to it over a separate geographical area through novel methods of syphoning off assets, methods which were contrary to the agreement. It based the reparations policies in its zone of occupation on its demands brought up at the Yalta Conference, which, however, were not explicitly conceded by the other powers. At all the conferences of the Council of Foreign Ministers since Yalta, it consistently urged approval of the extent of its demands and of its methods of collection and stated its position once again at the Moscow Conference in 1947, as follows:

One total figure (based on 1938 world market prices) for all reparations to be paid by Germany should be established and from that amount the USSR should receive ten billion dollars. The USSR would be willing to pay for Poland's reparations claims from its share.

The reparations should consist of:

1. Dismantling of industrial equipment suitable for occupation (including Soviet facilities) if such equipment was not needed for the German post-war time industry; if the equipment of such a factory should remain in Germany, some other asset of that factory connected with its operation should be delivered as reparations;

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2. Annual deliveries from current production for a period of twenty years;
3. German foreign assets;
4. Miscellaneous services.

To date, the USSR has not changed its views regarding these principles for collecting its claims. During the dismantling period in Germany, which was most disagreeable anyway, the USSR interpreted the term armament industry in the most arbitrary manner and carried out the dismantling of enterprises to the greatest extent possible, in accordance with the requirements of its own war production, while at the same time using dismantling as an instrument for the Bolshevik class struggle. It deprived the industry remaining in the Soviet Zone of 30 percent (by value) of its productive capacity through the system of 3AG's and established a system of economic exploitation of one country by another the magnitude of which was so far unknown in the world.

In addition, the USSR demanded and received annual deliveries of a large volume of goods from current production. It was indifferent to representations by the US and Great Britain that the deliveries of goods from current production were a violation of the Potsdam agreement.

The political aspects of the Soviet intransigence might be most significant: the USSR stated at the Moscow Conference of the Council of Foreign Ministers that acceptance of its reparation demands would constitute the sine qua non for the restoration of German economic unity. The German population still is not sufficiently aware of the fact that during the period 1945 - 1947, when a compromise between the former Allies still appeared possible, the discussions about the restoration of German unity failed because of these Soviet demands. The USSR made political reunification impossible by its refusal to agree to the economic reunification of Germany without guarantees that its reparations demands would be satisfied by annual deliveries of goods from the current production of all of Germany. Nor did the USSR depart from this demand at the London Conference of the Council of Foreign Ministers in December 1947. All efforts of the past few years to reunite Germany failed because of this Soviet position.

It is this political background which gives special importance to Doctor Franz Rupp's study. The study tries to penetrate into the complicated and often camouflaged forms of economic exploitation and into the obscure accounting methods used, and to present, as far as possible, the factual and conclusive picture of the volume of exactions of the occupation power.

INTRODUCTION

For numerous reasons the investigation of the reparations exacted by the USSR is a difficult task. There is only very little material available which is generally accessible. Neither the German authorities nor probably even the Soviet authorities really possess complete and exact records.

This applies not only to the booty, referred to as spoils of war, whose value could be only approximated in accordance with the nature of the items. It also applies to the dismantlings of which at least the German authorities have only a very vague picture. Records gathered by the Laender administration were tracked down and confiscated by the Soviet secret service during January 1947.

The value at which the Soviet officials have appraised the large enterprises taken over by the USSR is better known. But the competent authorities do not

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even have exact figures showing the total reparations from current production. To some extent this situation can be ascribed to the special Soviet method which intentionally creates confusion and partly it is also caused by the incompetence of the German administration. Only general estimates can be made of the other amounts syphoned out of the Soviet Zone.

It is only proper to make these reservations quite explicit. They indicate that it is utterly impossible to make exact statements with regard to the deliveries from the Soviet Zone to the USSR. Despite this handicap it is possible to arrive at conclusions which make the tragedy of the occupation power's past and present exploitation of the Soviet Zone sufficiently clear. It is absolutely certain that the value of the reparations deliveries has already exceeded the ten billion dollar figure which the USSR had demanded. This is true even though all appraisals may be made with the utmost care and the lowest estimates may always be used.

In this study the lowest figures were deliberately used at all times. Moreover, only three broad categories of reparations deliveries were taken into account for this computation: namely, dismantlings, transfers of the most important large enterprises to Soviet ownership, and, finally, that part of the huge payments from the public treasury which was not earmarked for the payment of occupation costs. All other categories of benefit to the USSR were not taken into account: namely, war booty, prisoner-of-war labor, profits from black market operations, underpayment for East German exports, and many other like categories.

Since this study was limited to specific types of reparations and since the estimates were kept at the minimum level, it should be understandable that the total and the individual items computed here as reparation deliveries of the Soviet Zone remained considerably below the amounts reported by other sources. However, it would not be correct to interpret the low figures of this study as implying criticism of other estimates. The question is still open as to which estimates are closer to reality. But in any case there is no doubt that the reparations of the Soviet Zone cannot possibly be lower than the figures presented in this paper.

This study is based upon [administrative] orders of the Soviet occupation authorities, official administrative material of the Soviet Zone, and statements of high functionaries. Thus the conclusions reached are well documented. Accordingly there need not be any fear of adverse criticism. This advantage greatly outweighs the obvious drawback of the considerable discrepancies from other estimates. The method of presentation is adapted to the fact that official documents and similar material provide the basis of the investigation; the accent is on moderation.

I. PAYMENTS FROM THE PUBLIC TREASURIES

It was possible to obtain a relatively accurate picture of the payments made for the benefit of the occupation power from the public treasuries of the Soviet Zone. It should be noted beforehand that the central administrative units, most of which were later brought together in the German Economic Commission, originally did not have their own tax revenue at their disposal. They had insignificant administrative revenues and, besides that, were financed by the railroad and postal services. The Laender were the financial centers and had the power of taxation.

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The earliest completely reliable document is the Soviet order concerning the budget of the East German Laender for the fourth quarter of 1946. It directed the five Laender of the Soviet Zone to contribute 450 million marks for purposes of "occupation and reparations." In addition, payments of 1,125,000,000 marks to the Central Administration for Public Finances were provided for. But the Central Administration for Public Finances was only a channel for this huge amount; for, according to the structure of the entire financial and administrative system, the Central Administration for Public Finances could not possibly spend this amount but would have to transfer it to the occupation power or to spend it for Soviet purposes. Since the payments to the occupation power had the highest priority over all other expenditures, there is no doubt that these amounts were actually transferred to the occupation power or expended for its purposes.

During the last quarter of 1946 the tax revenues of the Laender were estimated at 2,195,000,000 marks and the total revenues at 2,425,000,000 marks. The payments to the occupation power amounting to 1,575,000,000 marks were 72 percent of the tax revenues and 65 percent of the total revenues. According to the budget estimate the Laender could retain only 850 million marks for their own administration for this quarter.

Assuming that the same payments were provided for the entire fiscal year, as ordered for the last quarter of 1946, it would follow that 6.3 billions marks had to be paid to the occupation power or spent for its purposes from 1 April 1946 to 31 March 1947. From this amount the sum of 1.8 billion marks was explicitly designated as expenditures for occupation and reparations; the purpose for which the remaining 4.5 billion marks were to be used was not indicated.

The second unimpeachable document is the Order No 13 of 29 January 1948 of the Soviet Supreme Commander, Marshall Sokolovskiy. The minister presidents of the Laender governments were directed in the paragraph I-2 of that order quoted as follows:

The payments from the Laender treasuries to the German Administration for Public Finances are to be reduced from 5.2 billion Marks in 1947/1948 to 4.2 billion Marks in 1948, or by one billion, which is to be used for the economy of the Laender. For the fiscal year 1948/1949 the payments to the German Administration for Public Finances from income taxes, turnover taxes, and excise taxes are to be fixed at the following amounts:

| <u>Land</u> | <u>1948 - 1949</u> <u>(million marks)</u> | <u>Com Fig for 1947 - 1948</u> <u>(million marks)</u> |
|----------------|--|--|
| Brandenburg | 750 | 900 |
| Mecklenburg | 375 | 450 |
| Sachsen-Anhalt | 975 | 1,200 |
| Sachsen | 1,325 | 1,650 |
| Thueringen | 775 | 1,000 |

It should be noted that these amounts do not correspond to those which in the fiscal year 1946 - 1947 were listed under the heading "Payments to the Central Administration for Public Finances." For they also include the payments

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which were previously entered under "occupation and reparations" and therefore the figures should be compared with the total amount of 6.3 billion marks. In other words, the amounts to be paid were considerably lowered by the USSR between 1946 and 1948.

Despite this reduction, the amounts demanded continued to represent a tremendous burden on the public finances. The actual tax revenue of the Soviet Zone Laender amounted to 8,180,000,000 marks during the fiscal year 1947/1948; 64 percent of the payments by the Laender to the Central Administration for Public Finances was for the occupation power. The tax revenues were somewhat lower in 1948/1949; together with the taxes of the German Economic Commission, which were instituted during that year, tax revenues totaled 7,780,000,000 marks. Because of the reduction by the one billion mentioned above, the payments to the occupation power went down to 54 percent of the total tax revenues.

The fiscal year 1949 included the months April - December 1949 only. In order to establish unity between the budget plan and the other plans, the calendar year was adopted as the fiscal year. At the same time a reorganization of the entire financial setup was started which assured the central administration considerable revenues of its own in 1949, and finally transferred the full power of taxation to the zonal administration in 1950.

The payments of the Laender to the Central Administration for Public Finances were set at 3,520,000,000 marks for the nine months of the fiscal year 1949, that is, 4.7 billion marks, at an annual rate, or more than during the previous fiscal year. However, this increase does not mean that the payments to the occupation power were again raised. In fact, the central administration took over certain administrative expenditures from the Laender, primarily in connection with the consolidation of the most important people-owned enterprises into federations (now called administrations) which were placed under the management of the central state industrial administrations. Together with the duties, the expenses were transferred from the Laender to the central administration and thus the increase of the payments by the Laender is readily explained. However, a careful analysis of the entire budget proves that the increase of the Laender payments for the reason stated above could be only relatively small and that for this reason, the same amount as in the preceding year must have been earmarked for the occupying power.

The budget of the zonal administration, however, tries to create confusion by showing the amount of 1,035,000,000 marks as expenditures for reparations. It was the sole purpose of this public statement to create the impression that this figure was the total payment to the occupying power. In accordance with these tactics, Fritz Selbmann, the present Minister of Heavy Industry (now Minister of Metallurgy and Ore-Mining), according to a report of the Communist newspaper Berliner Zeitung of 12 June 1949, made the statement at a press conference in Frankfurt/Main, that the Soviet Zone had not paid any occupation costs "for one year." Shortly thereafter it was proved that this statement was completely untrue, when another Minister officially spoke about occupation costs and even announced an alleged total.

The occupation costs and the other payments which were not expressly for reparations in the 1949 budget were included among the expenditures of the Central Administration for Public Finances and amounted to no less than 3.2 billion marks. Of this amount 2 billions are payments to the occupying power. Therefore in reality, 3,035,000,000 marks were to have been spent for the USSR during these nine months which, at an annual rate, would represent an expenditure of 4.05 billion marks or close to the 4.2 billion marks of the preceding year. If the Soviet Union did reduce its demands, it could have been only by this modest amount. Since it is possible that payments to the occupation power are hidden in some other budget items, it is justified to estimate reparations payments at the old figure.

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Since collection of the former Laender taxes was transferred to the Pankow government in 1950 it was not possible for that year to check up on the size of payments to the USSR on the basis of the Laender remittances. Since the official taxes were paid directly to the Central Ministry of Finance, "central, general projects" no longer had to be financed by Laender payments. On the contrary the Laender had to get money from the Pankow Ministry of Finance in order to fulfill the tasks still under their jurisdiction.

The amount of expenditures of this Ministry indicated that no essential changes of payments to the USSR were intended for 1950. The Ministry of Finance planned to spend 5,469,000,000 marks. This amount could not be explained otherwise than that it again included the previous amount of 4.2 billion marks in favor of the USSR. Not including the communal taxes this amount was 41 percent of the estimated tax revenues.

The 50-percent reduction of the reparations promised by Stalin for the period 1951-1965, in fact, meant only an insignificant reduction of German payments. These payments also had to finance many services furnished by the Soviet Zone, which were not recognized as reparations payments. Therefore, even after 1951 at least 3.5 billion marks were to be raised annually by the public treasury.

B. Subsidies and Other Supplementary Payments

The compilation of official payments to the occupation power is quite accurate. But further investigation is complicated by the Soviet methods of calculating reparations and by the price policies of the Soviet Zone. Since the USSR had in mind the value of a certain quantity of goods in their reparations claim of 10 billion dollars, it credited the reparations shipments only at definite ceiling prices, i.e. at 1944 prices. Of course the USSR frequently established the prices in a very arbitrary manner; it imposed prices which, considering the quality of the goods demanded, were far below the 1944 prices.

The matter was made more complex by the problem of settling the invoices of the suppliers of reparations goods. The basis for the reparations deliveries is Order No 128 of 1 November 1945. In addition, general delivery specifications and regulations on the handling of the documents were issued. Furthermore, the presidents of the provinces and Laender received instructions in which delivery specifications, and especially the price basis, were regulated though in a rather vague manner. According to these instructions, the suppliers of reparations goods were paid only according to the 1944 prices.

As a result of these instructions a very difficult situation was created particularly since the term "1944 prices" was not precisely defined. Especially complicated were those cases in which the enterprises did not previously produce the reparation goods in question. In such cases the USSR would not recognize calculations based on the production costs in that particular enterprise in 1944 if this obviously realistic and justified method would produce prices which the USSR did not like.

The producers were frequently unable to make goods meet at the Soviet-approved prices. Although the general price ceilings were more strictly enforced in the Soviet Zone than in the West, nevertheless a cost increase was unavoidable. Therefore, a large number of reparations suppliers had to be subsidized from the public treasury. These subsidies were not taken from the 4.2 billion marks earmarked for reparations but were in addition to that amount. Therefore, the USSR in effect received considerably more than the official payments.

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Furthermore, in order to hold the price increase tendencies within as narrow limits as possible, general price subsidies were granted to the producers of certain commodities, especially raw materials. If such products -- coal, metals, artificial fibers, and many others -- were used for the production of reparations goods, the subsidies used to keep their prices down, were in effect additional reparations payments to the USSR.

This situation was changed by the "Order on the Settlement of Reparation Deliveries from the Soviet Occupation Zone of Germany" of 11 April 1947. Paragraph 10 of this order reads as follows:

"When in accordance with the order of the Supreme Commander of the Soviet Military Administration, new prices are approved for individual goods, which are higher than those of the 1944 price list, the invoices for such goods shall be made out showing two prices: the 1944 prices and the current prices; the date and the number of the document which allowed the price increase must be furnished. The amount representing the difference between the two prices shall be entered on a special line."

The result of this new regulation was that the suppliers were paid the legal maximum prices instead of the ceiling prices. Official price increases were unavoidable in the long run though the procedure for obtaining the official approval was very complicated and difficult; therefore the price increases remained within relatively narrow limits. The important fact was that from this moment on the higher prices paid the suppliers could be credited as official reparations payments to the USSR. The additional burden on the budget arising from subsidies, though not completely eliminated, was, however, considerably reduced.

This new procedure for settlement of reparation invoices was confirmed by order No 44 of 16 April 1949 which replaced the settlement regulation of April 1947, though in a different form. Under No 3 the appendix to this order reads as follows:

"The reparations deliveries performed are credited to the reparations account in Deutsche marks at 1944 wholesale delivery prices of the respective industry and are entered in the bill on a special line; the suppliers are to be paid at current market prices. The price charged is to be established, as follows:

1. For staple goods, by taking into account the wholesale discounts which were customary in 1944;
2. For equipment produced on special order, by converting the production cost calculations to 1944 norms and prices or, if similar equipment was produced previously, by basing the price for the special order on the price of such similar equipment prior to 1 January 1945;
3. For goods which the particular firm did not produce previously, by basing the prices on the 1944 prices for identical goods produced by other firms."

This order affirmed once more that the USSR would credit the reparation account only at the 1944 prices or, at its discretion, at even lower prices; however, the suppliers could be paid the higher market prices.

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Added to the subsidies (formerly high, but now lower) which had to be paid because of the method of internal accounting were a whole series of other expenditures from the Laender budgets -- in addition to the expenditures identified as reparations and the payments to the Central Administration for Financial Affairs. The Land Sachsen budget for 1948 - 1949 furnished a good picture of the size of the additional burdens. This budget covered a period when the new, more favorable settlement with the enterprise had already been instituted. According to this budget 22.5 million marks were provided for construction projects for the occupation power. Twelve and one half million marks covered rents and expenses in connection with the evacuation of buildings. Another million marks was listed for polyclinics of the occupation power. Furthermore, there was an item of 22.3 million marks for the liquidation of debts of enterprises which had been made into SAGs. The Laender had to assume the debts which had been incurred between 8 May and the date on which the enterprises were taken over by the occupation power. The SAGs of the Land Sachsen were to receive an additional 30 million marks for "purposes of general development". The automobile industry was to get 17.4 million marks for repair work on reparations account. The amount of 8.5 million marks was set aside to assist the producers of pre-fabricated wooden houses which were produced for reparation purposes exclusively. In addition there were many other expenditures which benefited the occupation power, perhaps not exclusively but, nevertheless, to a large extent. For example under the Land Sachsen-Anhalt budget for 1947 - 1948, 60 million marks were provided to be used for nothing else but subsidies to the SAGs.

Assuming that the same situation existed in the entire Soviet Zone and taking into consideration the additional indirect participation of the occupation power in the high general subsidy payment, the Soviet Zone public treasuries must have contributed an estimated amount of 0.75 billion marks during 1948-1949 fiscal year, in addition to the above-mentioned 4.2 billion marks. That was in a year when the order of April 1947 had already brought about a certain easing of the burden on the public treasury. Therefore, it could be assumed that the payments during 1948-1949 were not less than during the preceding years. Later on there was to have been a considerable reduction in payments.

Finally, the USSR claimed the surpluses which were realized by the Laender treasuries. Even the proceeds from loans, which the Laender had made on Soviet initiative were channeled to the occupying power. Furthermore, it should be taken into account that all reparations deliveries were free of turnover tax and also that no consumption taxes, imposed, for example, on sugar and alcohol, were charged on reparations.

C. Loan Liquidation

However, the list is not yet complete. The basic Reparations Order No 128 speaks in paragraph 1 about deliveries "for reparations account and for loan repayment." This loan repayment means the liquidation of a loan which the occupation power had granted to the administration right after the surrender, because the Soviet Zone had no reserves, as a result of the blocking of accounts, and because its revenues started to come in again only gradually.

This loan consisted of captured Reich mark paper currency or of Allied money lent by the occupying power. The USSR demanded repayment for this loan in goods. Therefore, the amount should, without question, be regarded as identical with reparations since the East Zone never received any real equivalent value for it. The exact amount is not known, but the experts estimate it at a minimum of 800 million marks.

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RESTRICTEDD. Railroad and Postal Services

Finally, in calculating the payments to the Soviet Union the payments made by the railroad and postal services should also be taken into account. It was established that these two public enterprises had to pay 400 million marks during the fiscal year 1947-1948. There were indications that later on these contributions were reduced to 300 million marks annually.

E. General Summary

The foregoing information made it possible to draw up a list of the Soviet Zone's total payments to the occupation power or in its favor, as far as the payments were made from the budgets of the Soviet Zone administration or from the public enterprises. One might take exception to details of that summary. To begin with, rather rough estimates had to be made for the additional payments from the treasury prior to the fiscal year 1948-1949, a year for which quite reliable records were available. Furthermore, it was not possible to determine the period during which the 1945 loan was repaid. It was assumed that this repayment took place during 1946 and 1947. Moreover, the validity of drawing conclusions for the entire fiscal year from the estimate for the fourth quarter of 1946 might be questioned. Insofar as such criticism was justified and insofar as the estimates might be somewhat too high, this possible error should be sufficiently compensated for by the fact that the payments received by the USSR as occupation costs up to March 1946 were not taken into account. Therefore, it can be safely assumed that the total amount of payments up to 1950 is by no means too high.

The computation showed that by the end of 1950 the USSR had received 28.3 billion marks from current payments. It was also evident that the payments had been considerably decreased since 1946.

Payments of the Soviet Zone to the USSR (in million marks)

| <u>Period</u> | <u>From the Budgets</u> | | | <u>Total</u> |
|-----------------------------------|------------------------------|-----------------------------------|---|---------------|
| | <u>Official Payments</u> | <u>Supplementary Payments</u> | <u>Railroad and Postal Services</u> | |
| Apr 45 - Mar 47 | 6,300 | 1,150* | 0 | 7,450 |
| Apr 47 - Mar 48 | 5,200 | 1,150* | 400 | 6,750 |
| Apr 48 - Mar 49 | 4,200 | 150 | 300 | 5,250 |
| Apr 49 - Dec 49 | 3,100 | 400 | 225 | 3,775 |
| Jan 50 - Dec 50 | 4,200 | 200 | 100 | 4,500 |
| Total, Apr 46 - Dec 50 | 23,000 | 3,650 | 1,025 | 27,675 |

* 750 million marks included for subsidies etc. as well as 400 million marks for repayment of the 1945 loan granted by the occupation power.

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II. UTILIZATION OF PAYMENTS

A. Occupation Costs

What happened to these huge amounts? First, they were used to pay the occupation costs. Only little reliable information is available to indicate the extent of those costs. According to a special compilation prepared by the Central Administration for Public Finances, 2.1 billion marks were paid for occupation costs during the calendar year 1948. The amount appears to be quite high but the reliability of the information is beyond any doubt.

A comparison with the situation in the Federal Republic does not help much since the demands of the respective occupation powers are too dissimilar. The standard of living of the Soviet occupation troops is lower than that of the Western occupation troops. In addition the Soviet Zone population has to bear directly some burdens which are heavy but cannot be detected in the public budget. Furthermore, the provisions for the relatively large number of troops in the Soviet Zone must be paid from the Soviet Zone treasuries.

The extent of the maintenance requirements of the Soviet Army can be seen from a 1947 list for Thuringen. According to that list not only food, fuel, and building material but also machines, tools, boots, gunstocks, and even hair-clippers had to be supplied. The expenditures for these items amounted to 45 million marks.

The occupation costs would have totaled about 12 billion marks for the period from 1945 to the end of 1950 if they had been as high every year as they were during 1948. But it is definite that the expenditures for occupation costs have decreased considerably since 1948. However, we must consider as much too low the figure given by Heinrich Rau, Deputy Minister President, that the occupation costs had been 400 million marks for 1950. At any rate a considerable decrease in occupation costs can be assumed. Nine billion may be considered as the top figure for payments of occupation costs from the public budgets for the entire period up to the end of 1950.

B. Admitted Reparations

Since the total payments to the occupying power amounted to more than 28 billion marks, at least 19 billion marks remained after deducting the occupation costs. This amount in its entirety represented reparations deliveries regardless of the manner in which the money was used. The West and the Communists, of course, mentioned figures for the reparations deliveries, which were considerably lower.

The first official statement was made by the Soviet Supreme Commander in the spring of 1946 on the occasion of a meeting with the leading administrative personnel of the Soviet Zone. He stated that the reparations during the first quarter of 1946 amounted to 300 million marks, a figure corresponding to 1.2 billion marks a year.

The budget for the fiscal year, April to December 1946, again indicated how low the USSR and the SED would like to make the reparations offer. In that budget the expenditures of the Soviet Zone administration for reparations were fixed at 1,035,000,000 marks, which would mean 1,312,500,000 marks for the 12-month period. This amount was consistent with the amount for 1946 mentioned by the Soviet Supreme Commander.

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Another official statement was the speech on the 1950 Economic Plan delivered by Heinrich Rau before the Provisional People's Chamber on 18 January 1950. He stated that during 1950 the per-capita costs for reparations and occupations amounted to 73 marks. Since just short of 18 million people lived in the Soviet Zone, the total amount of 1.3 billion marks would be the result on the basis of the above per-capita figure. This amount, according to Rau, represented 6.3 percent of the industrial gross production value, i.e. 4.4 percent for reparations and 1.9 percent for occupation costs. In round figures the reparations would amount to 900 million marks for 1950 and the occupation costs to 400 million marks.

In order to indicate the absolute and relative reduction of payments to the occupation power, Rau declared that the total burden was 14.6 percent of the gross production value of 1948, only 12.4 percent in 1949 and would be the 6.3 percent mentioned above for 1950. The division into reparations and occupation costs was said to have been the same for the years 1948-1949 as it was for 1950. According to the information published by the Soviet Zone authorities on the increase in the industrial production it was possible to compute the industrial gross production value for 1948 and 1949. Reparations payments during both years were about 1.4 billion marks each, based on the published percentage share of reparations in the gross industrial production.

All such statements, which revolved around approximately the same figures, showed that the published figures for reparations deliveries were considerably lower than the payments to the USSR from the public budgets. This contradiction was never explained either by the occupation power or by the responsible Soviet Zone authorities although this fact had repeatedly been called to their attention. This stubborn silence was understandable since in this case someone committed a serious indiscretion. The figures for the payments from the public budgets and those for the alleged reparations were both furnished by official sources. No accounting was ever given regarding the use of the large balances which would be at the disposal of the "Soviets" if the amount of the reparations were as stated, since it would reveal that open fraud was committed. But the low amounts which were announced for reparations payments were proof that out of all the goods and services which the Soviet Union squeezed out of the Soviet Zone it was willing to count only a small part as reparations.

Just how small the part is which the Soviets have acknowledged as reparations appears from the records of the Laender and of the Central Administration for Public Finances on the valuation of the deliveries. The evidence is not indisputable since there is not a single German authority which has been able to obtain a complete picture of reparations payments because of the very confused accounting system and because of the incompetence of Soviet Zone administration to cope with the bookkeeping tasks involved. But the material presented herein is the only evidence available on the German side. It confirmed what might have been deduced from the official statements, namely, that only a small part of the German payments was credited to the reparations account.

The tabulation below contains the value of recorded services at 1944 prices. This comprises the amount which according to German records is to be recognized by the USSR as reparations payments. Furthermore, the table shows the value of these deliveries at the current legally allowed higher prices. That is the amount which may officially be paid from the funds, currently 4.2 billion marks, set aside for the benefit of the occupation power. It appears that up to 1947 both values, the figures for payments to the suppliers and those for amounts to be credited to the reparations account, are identical in accordance with the regulation applicable up to that time, that no higher prices than those of 1944 can be paid to the reparations suppliers at all, or only if they are financed from additional public funds. Later on the value of legally allowed prices are from about 33 to 40 percent higher than the value at 1944 prices.

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The tabulation contains a much lower value for 1946 than should be expected after the above-mentioned statement of the Soviet Supreme Commander that 300 million marks were paid during the first quarter of 1946. This could perhaps be explained by the fact that the Soviet marshal did not have the actual accounting records before him to support his statement and that he spoke about the Soviet demands which were known to him. The invoices approved by the USSR, which were the basis for payments to the suppliers, arrived very slowly and haltingly at the beginning. For this reason a considerable part of 1947 book-keeping entries probably were 1946 deliveries.

The following calculation supports this assumption. The total deliveries at 1944 prices amount to 2,123,000,000 marks for the two years 1946 - 1947; i.e., an average of 1,062,000,000 marks per year, which is almost the exact amount shown for 1948, i.e., 1,055,000,000 marks. It appears that there actually are accounting shifts between 1946 and 1947. But that assumption would still lead to a lower annual figure than should have been expected from the above-mentioned official statements.

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Reparations Deliveries From Current Payments
(a) At 1944 Prices; (b) At Legally Allowed Prices
(In million marks)

| | 1945 | | 1946 | | 1947 | | 1948 | | 1949 (est. quat) | | Total | |
|------------------|-------|-------|---------|---------|---------|---------|---------|---------|------------------|---------|---------|---------|
| | a | b | a | b | a | b | a | b | a | b | a | b |
| Thuringen | 0.3 | 0.3 | 194.0 | 194.0 | 324.0 | 358.6 | 224.5 | 289.2 | 51.4 | 66.5 | 1,094.2 | 508.6 |
| Brandenburg | 5.1 | 5.1 | 49.5 | 49.5 | 26.7 | 26.8 | 80.7 | 108.0 | 25.4 | 21.8 | 177.4 | 211.2 |
| Sachsen | 0 | 0 | 276.9 | 276.9 | 585.0 | 585.0 | 366.7 | 401.1 | 125.5 | 147.4 | 1,351.1 | 1,410.4 |
| Mecklenburg | 0 | 0 | 0 | 0 | 83.0 | 83.0 | 93.5 | 115.8 | 17.7 | 25.4 | 194.2 | 224.2 |
| Sachsen-Anhalt* | [1.6] | [1.6] | [242.6] | [242.6] | [341.3] | [396.6] | [289.5] | [526.0] | [75] | [148.8] | 951.6 | 1,317.8 |
| Soviet Zone | | | | | | | | | | | | |
| [approximations] | 7 | 7 | 763 | 763 | 1,360 | 1,450 | 1,055 | 1,440 | 285 | 410 | 5,470 | 4,070 |

* In order to get a picture of the distribution of total reparations deliveries for the individual years, the lump sums for Sachsen-Anhalt were broken down to correspond to the distribution in the other Laender. [Figures in brackets were obtained by subtracting the sum of the amounts for the other Laender from the figures given for the entire Soviet Zone.]

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For the period from 1945 to 31 March 1949, the last day of the fiscal year 1948 - 1949, total reparations paid amounted to 3.5 billion marks at 1944 prices and 4.1 billion marks at legally allowed prices. Compared with the actual payments these amounts appeared to be startlingly low.

The low amount of 3.5 billion marks, which is credited by the USSR as German deliveries, can in part be explained by the fact that the quality control of goods, when they are accepted, is very strict and extremely arbitrary. Without sufficient reason some goods, offered for acceptance, are declared of second or third quality and the corresponding price reduction is made. Furthermore, the prices applied by the USSR in many cases are even lower than the actual 1944 prices. Added to that is another petty Soviet measure: Frequently the USSR refuses to acknowledge deliveries afterwards which already have been paid for. For, according to the regulations, the Soviet Zone guarantees delivery of the goods up to their arrival at their destination in the USSR. This regulation is ridiculous since the Soviet Zone is, of course, completely powerless to protect the reparation goods after they leave GDR territory. Thefts or accidents, spoilage, or even belated complaints which cannot be checked are charged to the Soviet Zone. Experts are of the opinion that in that way the originally acknowledged amount of 3.5 billion marks has been subsequently reduced by several hundred million marks.

The above reputation of entries on the reparations account can be continued up to the end of 1950. Although the records for 1949 are incomplete, nevertheless they provide quite reliable estimates. According to available records 1,165,000,000 marks were credited to the reparations account at the 1944 prices and 1,560,000,000 marks at the legally allowed higher prices for deliveries during all of 1949. According to the information from Heinrich Rau, deliveries valued at 900 million marks were acknowledged for 1950, or about 1,200,000,000 marks at the legally allowed prices. Therefore, by the end of 1950 a total of 5.4 billion marks would have been credited to the reparations account at the 1944 prices and 6.7 billion marks at the legally allowed prices.

Amounts Credited to the Reparations Account
of the Soviet From Current Payments
(In million marks)

| <u>Period</u> | <u>At 1944 Prices</u> | <u>At Legally Allowed Prices</u> |
|-------------------|-----------------------|----------------------------------|
| 1945-1948 | 3,185 | 3,660 |
| 1949 | 1,350 | 1,800 |
| 1950 | 900 | 1,200 |
| Total 1945 - 1950 | 5,435 | 6,660 |

C. Incidental Reparations Costs

At most then, the USSR acknowledges receipt of a maximum of 5.4 billion marks as reparations and from the balance remaining after deduction of the occupation costs, the Soviet Zone can count only 6.7 billion marks as reparations payments. The balance [after deduction of the occupation costs] comes to over 19 billion marks. Thus the use of almost 13 billion marks remains obscure.

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From this amount incidental reparations expenses must be paid, such as expenses for transportation and insurance, and subsidies to reduce costs of loans for the reparations suppliers, etc. The Soviet company DERUTRA has the monopoly for transportation of reparations goods. For its services DERUTRA receives about 70 million marks annually; therefore, for the period from the surrender to the end of 1950 DERUTRA received about 350 million marks. It is difficult to estimate the other incidental expenses but it may be assumed that they do not exceed 750 million marks. It is estimated that, together with the payments to DERUTRA, incidental expenses amount to over one billion marks.

D. Accumulation of Credit Balances

The amount whose ultimate use remains to be investigated is thus reduced to 12 billion marks. Part of it was not spent at all. It was invested with the Guaranty and Credit Bank, a bank in the Soviet Sector of Berlin charged with the duty of handling banking for the Soviet Administration, Soviet Corporations, Soviet trade companies and other Soviet organizations. Originally it was an unimportant institution but since 1945 it has grown into a tremendous enterprise. By the end of 1946 its balance sheet value had already reached 890 million marks; within the half year, to the end of June 1947, it had increased to 2.1 million marks. Its further business growth might be traced through the amounts deposited by the Soviet bank with other banks of the Soviet Zone and especially with the Emission and Transfer Bank of Brandenburg. Shortly before the currency reform in the summer of 1948 these deposits amounted to not less than 3.7 billion marks.

Shortly before the currency reform these deposits were transferred to the German Emission and Transfer Bank which later was known as the DN. The deposits of the Soviet Occupying Power, and therefore also those of the Guaranty and Credit Bank, were expressly exempted from the devaluation losses brought about by the currency reform. Consequently, the credit balance of the Guaranty and Credit Bank with the DN must have amounted to 3.7 billion East marks immediately after the currency reform. In the only report published by the East German Central Institution, DN/ by 30 September 1949, these funds were included in the figures for the German Land central banks, under the heading "Deposits of Central Monetary Institutions." Out of a total of 3.8 billion marks as much as 2.2 billion marks belonged to the Guaranty and Credit Bank at that time. At the same time the Guaranty and Credit Bank had deposits of about 400 million marks in the other Soviet Zone banks. Thus a total of only 2.6 billion marks is accounted for. The Guaranty and Credit Bank must have disposed of over one billion marks in the meantime.

Of course it may be questioned whether the Soviet deposits in the Guaranty and Credit Bank might not have been derived from sources other than payments of the Soviet Zone Financial Administration. This possibility should be ruled out since the USSR opened up various other sources of income for itself. But the size of the amounts would lead to the conclusion that at least the main part was derived from official payments.

The fact, that the USSR keeps large deposits in the Guaranty and Credit Bank, proves the falsehood of propaganda statements that in contrast to West Germany the Soviet Zone has no foreign debt. On the contrary, the Soviet Zone's foreign debt is very high, even though its economy is already excessively burdened by withdrawals from its capital assets and from current production. Per capita, the real value of the foreign debt is not much lower in the Soviet Zone than in West Germany.

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This reduction in the credit balances (also continued later on), can be explained by the fact that in the meantime the Guaranty and Credit Bank invested its money in profit-making ventures. It uses the money to grant loans, especially to the SAGs, and earns satisfactory profits that way.

E. Uranium Mining

If for the time being three billion marks of the payments from the public treasuries have not been spent, an additional nine billion marks remain whose ultimate use is still unaccounted for. A large part of that money goes into uranium mining which employs a large number of people whose work must be considered reparations services. The deliveries to the Wismut A. G., which operates uranium mining, must also be regarded as reparations.

There are no exact records on the number of persons working in uranium mining. Most of the figures quoted are exaggerated. However, all labor offices of the Soviet Zone are very busy recruiting manpower for Aue and the other uranium districts. But it should be taken into consideration that there is a very considerable turnover of the labor force in uranium mining. Therefore, the labor offices do not always have to recruit additional workers for an expansion of the labor force but they must find replacements for the old labor force.

According to the statistics of the Sachsen Ministry of Labor, approximately 55,000 persons had definitely worked in uranium mines by the middle of 1948. In the meantime this number has increased considerably since the search for uranium is constantly expanded over new areas. But it is unlikely that at the present time the labor force comprises much more than 150,000 workers.

If the annual expenditure for wages and social expenses for each of the employed is figured at 4,000 marks, which should not be too high in view of the relatively high wage rate prevailing in this field, the annual wage bill for the present number of employees would be 600 million marks. There are other expenditures of unknown amount. A conservative estimate of the money spent for all uranium mining operations by the end of 1950 would come to at least 3 billion marks.

F. Purchases by Soviet Trade Companies

There are still about 6 billion marks remaining which the USSR could have used for purposes other than those mentioned. The main portion of that amount has been used to finance purchases in the Soviet Zone by Soviet trade companies, like Razno Export or Eksportlen. These companies make contracts with German firms for the delivery of goods, which for the most part, are not delivered to the USSR but are exported for the account of the Soviet companies.

These orders are not paid for with the money received by the Soviet Trade companies for the exported goods but with the reparations payments from the Administration for Public Finances to the Occupation power. These transactions -- at the beginning at 1944 prices and later on at the legally allowed prices -- are even worse for the Soviet Zone than the reparations. Both draw goods from the Soviet Zone without paying any real equivalent for them. But in contrast to the reparations, those transactions are not credited at all to the reparations account. The business of these companies has considerably decreased during the past years. The reason for this reduction might be the lower payments from Soviet Zone public funds because of the increased expenditures for uranium mining.

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RESTRICTEDG. Acquisition of Assets

The smaller portion of the remainder was used for the purchase of properties in Germany. The occupation power purchased all kinds of buildings all over the Soviet Zone. It was not possible to determine to what extent the USSR had acquired other assets with the payments. But there were indications that -- at least prior to the currency reform -- even shares of West German enterprises were purchased.

This completes the long list of uses to which the money has been put which the USSR has been receiving from the Soviet Zone treasuries. Although perfection cannot be claimed for these data, nevertheless it can be stated that the size of the payments have been estimated in such a way that an essentially correct picture of them has been provided.

III. SAGs

The continuous withdrawal of money and goods from the Soviet Zone is only one part of the reparations payments to the USSR. The other part consists of covering the reparation claims out of Soviet Zone capital assets. Withdrawals of capital assets took two forms: dismantling and transfer to Soviet ownership. There have been additional withdrawals from the national wealth, above all, the extensive war "booty", but these withdrawals have not been taken into account because their value can hardly be estimated.

A. Expropriation

The reason advanced by the USSR for declaring the most important industrial enterprises of the Soviet Zone as their property, was the contention that, according to the Potsdam decisions, these enterprises should have been dismantled but that the USSR wished to provide employment in the Soviet Zone and that therefore the enterprises would remain in Germany. It is not necessary to dwell upon this threadbare pretext.

The basis for the Soviet expropriations was Order No 10 of "On the Transfer of Enterprises in Germany to the Ownership of the USSR on the Basis of the Reparations Claims of the USSR". The order included a list of 200 enterprises covered by it, including the largest enterprises of the Soviet Zone.

For reasons which remained obscure these enterprises were transformed into corporations. According to the entries in the trade register Moscow was given as the headquarters. The capitals of the respective Soviet Zone Länder were given as headquarters of the various branches. The Main Administration for Soviet Property Abroad of the USSR Ministry of Foreign Trade always appeared as the principal participant in the establishment of the companies. Some Soviet companies such as Ramm Export, Mashinimport and Tekhnoproimport were brought in as secondary participants. The board of directors was made up of Soviet citizens.

The structure of the SAGs is unique. They are considered corporations paying rent to the USSR for the use of the plants. Rent amounts to 100 million marks annually. In addition, the profits naturally go to the Soviet stockholders.

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Of the 200 enterprises originally taken over by the Soviet Union, seventy four were returned to German ownership by early 1947. The enterprises returned were almost exclusively those which operated at a loss. The motive for the return clarified not only that action but also the reason for the original transformation of the enterprises into SAGs.

Obviously the pure profit motive, though not decisive, was at least as important as the desire for control of the decisive parts of the industry. In terms of the production value, the plants returned by the USSR represented one sixth of all SAGs. Later on, the USSR gave up several other plants, especially in Spring 1950 when it returned 23 enterprises to the German administration.

B. SAG Share in Production

The SAGs represent a tremendous economic power complex. Never before has there been such alienation of property in a civilized country. The latest available information indicates that the gross production value of the entire Soviet Zone industry (not including the foodstuffs industry) during the first half of 1949 amounted to 7,423,000,000 marks, of which 2,534,000,000 marks, or 34 percent, was the SAG share in the production value. If the food industry with a gross production value of 1,430,000,000 marks is included, the share of the SAGs is reduced to 30 percent since they are of no importance in this branch of industry.

The SAGs are concentrated in the basic industries, while in the consumer goods industries they are in the background. They hold the largest share in the chemical industry. Out of a total gross production value of 1,045,000,000 marks in the first half of 1949, the gross production value of the SAGs was 1,251,000,000 marks or about two thirds.

C. Value of the SAGs

This SAG trust represents tremendous assets. The original German estimates were very low since they originated from book values which were far below the actual values. Despite this fact the USSR did not accept the original estimates. On the contrary, in Order No 189 of 30 July 1947 the USSR established new and less favorable principles for evaluation. Coal and other mineral resources were not included in the value at all. High depreciation rates were established for the enterprises. The Land governments were forced to sign documents containing the new, considerably lower estimates.

An unusual event shows how serious the situation was and how unjustified the Soviet estimates were considered. At a conference of the Finance Ministers of the Soviet Zone on 1 October 1947, Henry Meyer, who was then President of the Administration for Public Finances, declared that the pressure, to which the subjects of the Laender were subjected, excused the members of the cabinets who signed the documents but it did not justify them before the nation and before history.

For Sachsen-Anhalt a list of 24 October 1947 is available containing estimated values for all SAGs located there (see table below). The list showed an amount of 1,179,000,000 marks (according to the original German estimates) which was reduced to 974 million marks by Order No 189. The value of the

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Buna Plant (Bunawork) in Schkopau, originally estimated at 261 million marks, was reduced to 209 million marks. The amounts for Leuna are 174 and 167 million marks.

These values just about correspond to the capital stock. All SAGs registered in the Halle trade register have a combined capital of 2,419,000,000 rubles, which at about 0.50 marks per ruble, corresponds to 1.2 billion marks. This fact is interesting because the original German estimate was that high but the valuation which the Soviet Zone was forced to accept under Order No 188 was lower. By fixing the value of the capital stock as it did, the USSR indirectly acknowledged the higher values.

The figures for Sachsen-Anhalt provide a good basis for estimating the total value of all SAGs, since about one half of all Soviet corporations are located in this Land. If the original and very conservative estimates are taken as the base, since there is no reason to recognize the drastic rules of Order No 188, the total value of the SAGs would be about 2.5 billion marks. This is a minimum estimate. Actually, the present value is considerably higher, since an amount should be added to the book values, on which the estimate is based, in order to arrive at the real values.

A large percentage of the production of the SAGs goes for reparations; a further percentage is exported. However, large quantities of the production are marketed in the Soviet Zone itself.

Enterprises Transferred to USSR Ownership

[Unit of currency not specified; probably Reichsmarks]

| <u>Name of Enterprise</u> | <u>Transfer Value Acc to Assess- ment Lists</u> | <u>Transfer Value Corrected Acc to Order No 188</u> | <u>Difference</u> |
|--|---|---|-------------------|
| Iron and Foundry Works (Eisen-und Huetten- werke), Thale (Harz) | 33,295,786 | 17,950,188 | - 15,345,598 |
| O. Kunsch Steel Mill (Stahlwerk O. Kunsch), Silbitz and Rasberg | 4,698,870 | 4,757,067 | + 58,197 |
| Steel and Iron Works (Stahl-und Eisen Werk), Franleben | 941,231 | 799,564 | - 142,367 |
| Copper and Brass Works (Kupfer-und Messing werk), Hettstedt | 19,775,270 | 19,299,756 | - 475,514 |
| Pfaennerhall Com- bine (Kombinat Pfaennerhall) | 19,426,876 | 12,423,102 | - 7,003,774 |

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| <u>Name of Enterprise</u> | <u>Transfer Value Acc to Assess- ment Lists</u> | <u>Transfer Value Corrected Acc to Order No 188</u> | <u>Difference</u> |
|---|---|---|-------------------|
| Friedlaender Com- bine (Kombinat Friedlaender | 24,333,424 | 16,099,661 | - 8,233,763 |
| Goelzau Combine (Kombinat Goel- zau) | 10,248,410 | 9,067,692 | - 1,180,718 |
| Deuben Combine (Kombinat Deu- ben) | 37,626,734 | 30,184,002 | - 7,442,762 |
| Profen Combine (Kombinat Profen) | 36,029,183 | 33,929,313 | - 2,099,872 |
| Petroleum Fac- tory (Min- eraloelfabrik), Koepsen | 5,750,672 | 4,928,166 | - 822,506 |
| Nachterstedt Combine (Kombinat Nachterstedt), | 38,732,126 | 30,835,340 | - 7,896,786 |
| (This number was as- signed to the Golpa Mine (Grube Golpa) in the SMA list. Because the Golpa Mine was returned to Soviet Zone ad- ministration it was omitted here but the numbers assigned in the SMA list were retained for all the other enterprises.) | | | |
| Brabag. [Syn- thetic Gasoline Plant?] Zeitz | 102,476,925 | 82,685,103 | - 19,791,822 |
| Merseburg Ammonia Works, "Leuna Works" (Ammoniak- werk Merseburg, "Leuna Werke") | 174,207,940 | 167,358,550 | - 6,849,390 |
| AGFA Film Fac- tory (AGFA Filmfabrik), Wolfen | 89,878,705 | 66,492,109 | - 23,386,596 |

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| <u>Name of Enterprise</u> | <u>Transfer Value Acc to Assess- ment Lists</u> | <u>Transfer Value Corrected Acc to Order No 188</u> | <u>Difference</u> |
|---|---|---|-------------------|
| IG-Farben (Due Syndicate), Bitterfeld | 95,522,018 | 80,748,710 | - 14,773,308 |
| German Celluloid Factory (Deutsche Celluloidfabrik), Eilenburg | 4,475,877 | 4,759,067 | + 285,190 |
| Nitrogen Works (Stickstoff- werke), Piesteritz | 29,711,725 | 26,843,211 | - 2,868,514 |
| IG-Farben, Wolfen | 40,000,281 | 37,448,427 | - 2,551,854 |
| Buna Works (Buna- Werke), Schkopau | 261,061,518 | 208,849,379 | - 52,212,139 |
| United East and Central German Cement Corpora- tion (Vereinigte Ost-und Mittel- deutsche Zement A.G.), Nienburg | 7,100,684 | 6,699,536 | - 401,148 |
| Vereinigte Ost- und Mittel- deutsche Zement A.G., Nietleben | 2,779,763 | 2,603,338 | - 176,425 |
| Vedag [roofing felt plant], Schkeuditz | 951,005 | 956,005 | + 5,000 |
| Hoope & Roehming, Ammendorf | 351,314 | 331,302 | - 20,012 |
| Weber Paper Fac- tory (Papier- fabrik Weber), Wehlitz | 928,202 | 815,447 | - 112,755 |
| E. Behn Paper- Bag Factory (Papiersack- fabrik E. Behn), Nienburg | 601,648 | 584,240 | - 15,768 |
| Krupp-Gruson Cor- poration (Krupp- Gruson A.G.), Magdeburg | 42,642,071 | 27,791,738 | - 14,850,333 |

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| <u>Name of Enterprise</u> | <u>Transfer Value Acc to Assess- ment Lists</u> | <u>Transfer Value Corrected Acc to Order No 188</u> | <u>Difference</u> |
|--|---|---|-------------------|
| Otto Gruson & Co, Magdeburg | 5,044,818 | 3,354,611 | - 1,690,207 |
| Buckau Machine Fac- tory (Maschinen- fabrik Buckau), R. Wolf, Magdeburg (The transfer of the Maschinenfabrik Buckau, R. Wolf, Magdeburg, had not been accomplished at the time of the re- vision of the valu- ation. The basis for the estimate was Order No 188 and the regulations pertaining to it.) | 20,668,738 | 20,688,738 | - |
| Polysius Corporation (Polysius A.G.), Dessau-Anhalt | 5,111,481 | 4,919,564 | - 191,917 |
| A.W. Mackensen, Magdeburg | 3,320,400 | 2,990,178 | - 330,222 |
| Zeitz Iron Foundry and Machine- Building Factory (Zeitzer Eisen- giesserei und Maschinenfabrik), Zeitz | 2,278,341 | 2,094,711 | - 183,630 |
| Maschinenfabrik, Sangerhausen | 3,961,533 | 3,030,092 | - 931,441 |
| Kyffhauser Foundry (Kyffhauserhuetten), Artern (Unstrut) | 4,176,062 | 3,599,526 | - 576,536 |
| Mifa, Mitteldeut- sche Fahrradfabrik- Central German Bicycle Factory, Sangerhausen | 1,685,199 | 1,378,430 | - 306,769 |
| Schaeffer & Buden- berg, Magdeburg | 29,915,305 | 22,303,620 | - 7,611,685 |
| Steinle & Hartung, Quedlinburg | 660,095 | 631,035 | - 29,060 |

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| <u>Name of Enterprise</u> | <u>Transfer Value Acc to Assess- ment Lists</u> | <u>Transfer Value Corrected Acc to Order No 188</u> | <u>Difference</u> |
|--|---|---|-------------------------------------|
| Gottfried Lindner Corporation (Gottfried Lind- ner A.G.), Ammendorf | 13,400,167 | 10,204,622 | - 3,195,545 |
| Dessau Railroad- Car Manufactur- ing Plant (Dessauer Waggon- fabrik), Dessau | 3,179,695 | 2,895,501 | - 284,194 |
| KloECKner Rolling Mill for Semi- Finished Products (Halbwalzwerk KloECKner), Ilseburg | 1,967,674 | 893,932 | - 1,073,742 |
| Total | 1,178,936,674 or 100 percent | 974,225,282 or 82.7 percent | - 204,711,186 or 17.3 percent |

Table prepared by Section for Industrial Reparations, Halle, 24 October 1947.

IV. DISMANTLINGS

The Soviet Zone suffered considerably greater losses through dismantlings and the many other forms of withdrawing capital assets [than through any other Soviet action.] The ravages resulting from the war actions and the occupation were more extensive [in the Soviet Zone] than in West Germany. The most striking difference can be observed in the Soviet Zone itself since Thuringen and large parts of Sachsen-Anhalt and Sachsen were first occupied by the US and only later on transferred to the USSR.

The USSR has taken much more war booty than the Western occupying powers. But there is no reason for interpreting the term "war booty" as broadly as the USSR would like to. Above all it is impossible to consider everything that has been taken prior to the capitulation as war booty. Machines and other equipment taken at that time should be considered as dismantled equipment and credited to the reparations account the same as the dismantled equipment taken later on.

A. Dismantling Cycles

The first huge dismantling cycle began right after the start of the occupation. The USSR shipped away factory installations at a tremendous pace. This was done especially fast and thoroughly in Berlin because a fait

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accomplish had to be achieved before the Western troops could advance to Berlin. Then, as well as later on, the USSR did not respect the Potsdam Agreement which stipulated that only certain facilities were to be dismantled either partly or wholly. The USSR also dismantled installations which were unmistakably for the use of the peace-time industries.

The first cycle was followed by a second one during the fall of 1945. This again meant the loss of considerable assets by the Soviet Zone. The dismantling was continued in great volume during the third cycle in the spring of 1946. These three great cycles were clearly distinguishable. They accounted for most of the dismantlings. Especially annoying and hampering was the effect on some enterprises, which, after being rebuilt following one dismantling, were dismantled again in the second or even the third cycle.

During the fall of 1946 the USSR shipped the equipment of special armament factories [to the USSR.] These factories had been rebuilt and put back into production by the USSR. Obviously the reason for the rebuilding was the aim to get back the specialists who knew certain specialized production procedures. But when it appeared that there might be international inspection of the status of disarmament, the expulsion of the specialists and the dismantling of the factories began on 21 October 1946, one day after the elections for the Landtags (Laender parliaments). The greatest loss for the Soviet Zone was the dismantling of the Zeiss Works in Jena.

During spring 1947 there was some minor dismantling of other equipment belonging to coal mines, briquette factories, and electric power plants, which, nevertheless, had a very harmful effect. By that action extreme difficulties were created for the entire economy of the Soviet Zone. Since then only isolated cases of dismantlings occurred. Some of the more important of such cases were the partial dismantling of the Buna Works in Schkopau and the complete dismantling of two former Siemens factories in Gera and Arnstadt.

B. The Extent of Dismantlings

A tabulation of the extent of dismantlings was published by the Manchester Guardian on February 1947. This table, given below, is a summary, in round figures, of computations prepared during the late summer of 1946 by the appropriate central administration. The computations are not reliable but no better information is obtainable. The data are presented here in their original form. The entire coal mining industry as well as briquette factories and electric power plants, are not included therein. It can be estimated that dismantlings amounted to at least one third of the capacity for these industries. Moreover, dismantlings hit heavy industry especially hard. Dismantling of light industry was less extensive but should not be underestimated. Here, as in all dismantlings which took place, the best and the most modern installations were removed. Therefore, the real loss is higher than that indicated by the percentage figures.

The data of the table on dismantlings are percentages of actually existing capacities, not of any pre-war capacities. Therefore, in the many cases where the productive capacity was expanded since 1936 the remaining capacity should not be compared with the 1936 capacity.

It is practically impossible to compute an over-all rate for industrial dismantling. Various considerations lead to the conclusion that, at any rate, it amounts to more than one half of the highest capacity which existed at any time.

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Dismantling of transportation equipment took place in addition to that of industrial equipment. Especially thoroughgoing was the removal of the second sets of tracks and the dismantling of entire railroad lines. In addition to this, a large quantity of rolling stock, switches, and signal installations were also shipped to the USSR.

Loss of Productive Capacity
Through War Action and Dismantling

| <u>Branch of Industry</u> | <u>Loss of Capacity</u> | | <u>Remaining Capacity (%)</u> |
|---|-------------------------------|--------------------------------|-------------------------------|
| | <u>Through War Action (%)</u> | <u>Through Dismantling (%)</u> | |
| Metallurgy | 10 | 64 | 26 |
| Iron foundries and rolling mills | - | 80 | 20 |
| Machine building | 24 | 53 | 23 |
| Vehicle building | 21 | 54 | 25 |
| Electrical industry | 20 | 60 | 20 |
| Precision instruments and optics | 15 | 63 | 22 |
| Calcined soda | 5 | 85 | 10 |
| Caustic soda | - | 60 | 40 |
| Sulfuric acid made from gypsum | - | 100 | - |
| Sulfuric acid made from other raw materials | - | 30 | 70 |
| Magnesium oxide | - | 100 | - |
| Rubber processing -- vehicle tires | - | 95 | 5 |
| Brake and clutch linings | - | 60 | 40 |
| Rubber conveyer belts, over 1200 millimeters wide | - | 100 | - |
| Rubber thread, not covered | - | 100 | - |
| Wire and scraper materials | - | 100 | - |
| Rubber soles and heels | - | 40 | - |

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RESTRICTEDLoss of Capacity

| <u>Branch of Industry</u> | <u>Through War Action (%)</u> | <u>Through Dismantling (%)</u> | <u>Remaining Capacity (%)</u> |
|---------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| Cement | 10 | 40 | 50 |
| Gypsum | 5 | 35 | 60 |
| Flywood | - | 100 | - |
| Kieselguhr | - | 100 | - |
| Ceramics | 15 | 35 | 50 |
| Lumber | 20 | 15 | 65 |
| Artificial fibers | 5 | 30 | 65 |
| Textiles | 10 | 15* | 75 |
| Knitting and weaving | 10 | 10 | 80 |
| Leather products | 8 | 25 | 67 |
| Shoes | 5 | 15 | 80 |
| Fur products | 10 | 10 | 80 |
| Cellulose and paper | 15 | 45 | 40 |

*Includes cotton spinning mills in particular.

C. Estimating the Total Value of Dismantlings

The value of the enterprises transformed into the SAGs can provide the basis for estimating the total value of the dismantled installations. However, appropriate allowances should be made for the very high dismantling costs. If these costs are assumed to be one half of the total value, the value of the dismantled industrial installations to be charged to the reparations account would come to four billion marks. Adding to this figure the value of railroads and other communications installations (telephone offices etc.) which were dismantled; as well as the value of installations dismantled in other sectors of the economy, brings the total to at least 5 billion marks after deduction of all dismantling costs. As noted regarding the valuation of the SAGs, these figures are also the minimum values.

There would, of course, be a justification for including in this computation many other commodities taken by the USSR. It may be estimated that the reduction of livestock by the USSR caused a loss of at least one half billion marks. There is no doubt that not all the slaughtered cattle was required for provisioning the Soviet Army. Entire herds, among them very valuable breeding animals, were taken away. Many other things also could be taken into consideration, as for instance the confiscation of works of art and goods in stock. But it would be impossible to make an over-all estimate of everything that was designated as war booty and actually was nothing of the kind.

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V. GENERAL SURVEY

A. Summary of Soviet Zone Deliveries to the USSR

From the preceding computations and estimates it is now possible to summarize the deliveries of the Soviet Zone to the USSR. Payments from the public treasuries: 28.3 billion marks; the value of the SAGs: 2.5 billion marks; and the net value of the removed installations: 5.0 billion marks; total: 35.8 billion marks. Deducting from this amount 9 billion marks for occupation costs leaves 26.8 billion marks, which represents the value of all reparations paid by the Soviet Zone by the end of 1950.

This amount must be converted at the exchange rate of 2.50 marks for one dollar, the same rate on which the USSR bases the Soviet Zone foreign trade. The favorable exchange rate is justified because the USSR uses the 1944 prices or only slightly higher prices on the mark side of the account. According to this exchange rate the reparations of the Soviet Zone (from current payments only without occupation costs) amounted to 7.7 billion dollars. The SAGs were valued at one billion dollars and the dismantlings at two billion dollars. Total payments: 10.7 billion dollars.

General Survey of the Soviet Zone's Deliveries
to the USSR From 1945 to 1950

| | <u>Value</u> <u>(billion marks)</u> | <u>Value</u> <u>(billion dollars)</u> |
|------------------------------|--|--|
| Total payments | 28.3 | 11.3 |
| For occupation costs | 9.0 | 3.6 |
| Payments for reparations | 19.3 | 7.7 |
| Soviet Corporations | 2.5 | 1.0 |
| Dismantlings | 5.0 | 2.0 |
| Total reparations deliveries | 26.8 | 10.7 |

It should be emphasized once more that all calculations are extremely conservative so that nobody can claim that the figures are exaggerated. In addition, the computation does not take into account that the USSR actually has received additional services from Germany: Berlin also had to pay reparations; the Soviet Union received German merchant ships; it participated in the dismantling in West Germany, although it had to deliver goods from the Soviet Zone in exchange; part of the German assets in foreign countries became its property; German patents were made available to it as to the other countries. Estimates for these and many other items were not included. The deliveries of the Soviet Zone by themselves are so large that all reparations demands of the USSR and Poland should have been satisfied.

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B. Other Methods of Exploitation

In addition, the USSR was very ingenious in finding many other sources of exploitation. The Soviet monopolistic companies, such as DERUNERA or DERUNAPHT, operate in the Soviet Zone. It is compulsory for Soviet motion pictures to be shown. The USSR has made hundreds of millions of marks through one of her trade companies which systematically organized a large-scale black market. In the foreign trade with the USSR the Soviet Zone receives low prices for its exports but must pay high prices for its imports. The April-December 1949 budget provides 400 million marks for foreign trade subsidies to keep the prices of imports down and to support the exporters. The 1950 budget provided almost 600 million marks for the same purpose but more than one billion marks was actually spent. Since the USSR is the largest trade partner of the Soviet Zone, a large part of these huge expenditures must have been in favor of the USSR, actually more than one billion marks during the entire period. The USSR also participates in the foreign trade of the Soviet Zone by laying claim to part of the foreign exchange derived from Soviet Zone exports. More Soviet exactions could be cited. But none of them were included in this computation; nevertheless the deliveries of the Soviet Zone totaled 10.7 billion dollars.

Therefore Stalin's message of the middle of May 1950 to the Pankow Government was all the more staggering when he stated that the total payments of the Soviet Zone up to the end of 1950 were to be estimated at 3,658 million dollars. This is nothing else but an arbitrary figure and proof of the fact that the USSR intends to recognize only about one third of the actual Soviet Zone payments. In view of this brutal practice it does not mean anything for the USSR to declare its intention of reducing by one half the allegedly remaining reparations demands. If it can arbitrarily determine the value of reparations payments then it also has the power to demand as much as before but credit only one half of the real value. The reduction means even less since the USSR may, if it so desires, increase the flow from the other sources of exploitation.

C. Direct and Indirect Damages

The figures mentioned above provide only a very inadequate account of the exploitation. For the indirect effects on the total economy are just as serious as the direct damages resulting from the loss of capital assets and from the requisitioning of a large part of the current production. The economy of the Soviet Zone has been fully attuned to the requirements of the USSR. The economic plan of the Soviet Zone is only one facet of the general Soviet plan. When the USSR needed consumer goods right after the war, the total consumer goods production of the Soviet Zone and even -- in spite of famine -- large quantities of food were shipped to the East, although the vitality and the working capacity of the Soviet Zone population were most severely impaired.

Later on, the occupation power charged its demands to producers' goods and permitted a somewhat higher standard of living to the population. The Soviet Zone economy would have needed machines and spare parts, in particular, in order to be able to undertake repairs and reconstruction at long last, but it had to deplete its capital assets instead. To the extent that improvements are undertaken, they are carried out primarily to improve the production of reparations goods. In other words not only large reparations are demanded by the USSR, which it acknowledges only in part, but also the entire economy of the Soviet Zone serves the reparations demands of the USSR.

The Director of the Reparations Department of the German Economic Commission, Weinberger, a Soviet citizen of Hungarian nationality, clearly expressed the reason why the Soviet Zone was harnessed for the purpose of the Soviet Union to such a degree. At a reparations meeting on 9 August 1949

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he stated that the reparations would help increase the war potential of the USSR. Because of this "special significance" the reparations are to be considered of such importance that the new Five-Year Plan of the Soviet Zone explicitly states: "Exact and punctual fulfillment of the reparations obligations to the USSR and the Republic of Poland in accordance with the specifications laid down for quantity, assortment, and quality, is the most urgent task of the Soviet Zone industry which must be accomplished without fail."

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